IFRS

IASB Meeting

STAFF PAPER

22–26 April 2013

Project	**IFRS 13 *Fair Value Measurement***
Paper topic	IAS 36 *Impairment of Assets* narrow-scope amendment—Recoverable Amount Disclosures—Comment letter analysis

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Introduction and objective of the paper

1. In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* and, as a consequence, modified some of the disclosure requirements in IAS 36 *Impairment of Assets* relating to the measurement of the recoverable amount of impaired assets or cash-generating units. The amendments resulted from the IASB's decision in December 2010[1] to require additional disclosures about the measurement of impaired assets with a recoverable amount based on fair value less costs of disposal (formerly referred to in IAS 36 as 'fair value less costs to sell').

2. However, the IASB has been made aware that one of the amendments made to IAS 36 makes the disclosure requirements broader than it intended. It was intended that the disclosure of the recoverable amount of an impaired asset, including goodwill, or a cash-generating unit, would be required. Instead, the amendment requires the disclosure of the recoverable amount of any cash-generating unit (or group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (or

[1] Agenda Paper 9 for that meeting describes the issue. That paper can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/Fair-Value-Measurement/Summaries/Documents/FVM1210b09obs.pdf.

group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

3. During its meeting in December 2012 the IASB decided to propose a narrow-scope amendment to address this issue.[2] The Exposure Draft was published in January 2013 with a 60-day comment period.[3]

4. This paper:

   (a) provides a background description of the issue;

   (b) presents an analysis of the comment letters received; and

   (c) makes a recommendation to the IASB to finalise the proposed amendment subject to some minor wording modifications.

Description of the issue

5. IFRS 13 provides guidance for measuring the fair value of assets and cash-generating units for impairment testing purposes in IAS 36. However, the IASB decided not to require the disclosures in IFRS 13 when assets and cash-generating units are tested for impairment in accordance with IAS 36. Instead, the IASB decided to amend some of the disclosure requirements about impaired assets and cash-generating units in IAS 36 to improve the comparability between entities applying IFRS and entities applying US GAAP (for which impaired assets are measured at fair value) and to align the wording about fair value in IAS 36 with that used in IFRS 13.

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[2] Agenda Papers 11 and 11A for that meeting can be found at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2012/December/11-IAS36-1212.pdf and http://www.ifrs.org/Meetings/MeetingDocs/IASB/2012/December/11A-IAS36-1212.pdf.

[3] The Exposure Draft ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets* can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/Recoverable-Amount-Disclosures-for-Non-Financial-Assets/ED-January-2013/Documents/ED-Recoverable-Amount-Disclosures-for-Nonfinancial-Assets.pdf.

6. However, as discussed in paragraph 2 of this Agenda Paper, instead of amending the disclosure requirements about impaired assets or cash-generating units in paragraph 130 of IAS 36, the amendment was made to paragraph 134 of IAS 36, which requires an entity to disclose information for each cash-generating unit (group of units) **for which the carrying amount of goodwill** or **intangible assets** with indefinite useful lives allocated to that unit (group of units) **is significant** in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

> 134 An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:
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> …
>
> (c) <u>the recoverable amount of the unit (or group of units) and</u> the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs ~~to sell~~ <u>of disposal</u>).
>
> …

7. Consequently, from 1 January 2013, entities are required to disclose the recoverable amount of such cash-generating unit (group of units). This amendment is not consistent with the IASB's intention (as reflected in paragraphs BC218–BC221 of IFRS 13).

8. Following the IASB December 2012 meeting decision, the Exposure Draft of the proposed narrow-scope amendment to IAS 36 called *Recoverable Amount Disclosures for Non-Financial Assets* was published in January 2013. In particular, the IASB proposed to:

   (a) remove the requirement in paragraph 134(c) to disclose the recoverable amount of each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant when compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

(b) amend paragraph 130 to require an entity to disclose the recoverable amount of an individual asset (including goodwill) or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period.

(c) include in paragraph 130 a requirement to disclose additional information about the fair value less costs of disposal of an individual asset, including goodwill, or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period. An entity should also disclose the level of the fair value hierarchy within which the fair value measurement of the asset or cash-generating unit is categorised, the valuation technique(s) used to measure fair value less costs of disposal and any changes in the valuation technique and reason(s) for it and key assumptions used in the measurement for fair value measurements categorised within Level 2 and Level 3. Those proposed disclosure requirements are aligned with the amendments that the IASB made to paragraph 134 of IAS 36 as a result of IFRS 13.

9. In addition, the Exposure Draft incorporated an overlapping amendment to IAS 36 that had been proposed by the Annual Improvements Exposure Draft published in May 2012.[4] That proposed amendment would require an entity to disclose the discount rate that it used when the recoverable amount for an individual asset or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period is based on fair value less costs of disposal. The disclosure of such information is currently required if

[4] The Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle* can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/ED-May-2012/Documents/EDAnnualImprovementstoIFRSs20102012_WEBSITE.pdf.

an impaired asset's or cash-generating unit's recoverable amount is based on value in use.

10. Regarding the transition provisions, the IASB proposed that the amendments should be applied retrospectively for annual periods beginning on or after 1 January 2014. The IASB also proposed to permit earlier application. However, the IASB proposed that an entity should not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

Comment letter analysis

11. In this section of the Agenda Paper we present a summary of the comments received to the questions in the Exposure Draft. The IASB received 71 comment letters. Approximately one-third of respondents were accounting firms, professional bodies and other accounting organisations. Another third of the respondents were preparers and industry organisations and the last third of the respondents consisted mostly of standard-setters and a few academics and individuals. We note that we have not received any comment from users of the financial statements.

12. In general, the **vast majority** of respondents were **supportive** of the proposed amendment. They understood the rationale for amending the disclosure requirements and agreed with it. The summary of the comments received for the specific questions in the Exposure Draft is presented in paragraphs 13–34.

Question 1—Disclosures of recoverable amount

13. The vast majority of the respondents supported the proposal to remove the requirement in paragraph 134(c) to disclose the recoverable amount of each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant when compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

14. Similarly, the vast majority of the respondents supported the proposal to amend paragraph 130(e) to require an entity to disclose the recoverable amount of an individual asset, including goodwill, or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period.

15. However, we note that some of the respondents who supported the removal of the disclosure requirement from paragraph 134(c) were opposed to the addition of the new requirement to paragraph 130(e). Some of them were simply against the introduction of any new requirements, while a few of them highlighted that that disclosure would put pressure on the boundary between IAS 36 and IFRS 5 *Non-current Assets Held for sale and Discontinued Operations*.[5] However, the staff do not believe that the amended disclosures would put additional pressure on the boundary between IAS 36 and IFRS 5, because paragraph 20 of IFRS 5 clearly states that "an entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell..." This means that the asset (or disposal group) is first within the scope of IFRS 5 and subsequently an entity applies any measurement requirements accordingly. As a result, once an entity has concluded that the asset (or disposal group) is within the scope of IFRS 5, the disclosure requirements of that Standard prevail over those in IAS 36.

Question 2—Disclosures of the measurement of fair value less costs of disposal

16. The vast majority of the respondents supported the proposal to include in paragraph 130(f) the requirement to disclose additional information about the fair value less costs of disposal.

17. However, some respondents did not agree with those proposals:

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[5] See comment letters from BP, Nestle S.A. and Business Europe that are available at http://www.ifrs.org/Current-Projects/IASB-Projects/Recoverable-Amount-Disclosures-for-Non-Financial-Assets/ED-January-2013/Comment-letters/Pages/Comment-letters.aspx.

a) A few respondents believed that, in cases where impairment losses were calculated by reference to the recoverable amount determined on the basis of the fair value less costs of disposal, the proposed amendment would result in the disclosure requirements being much broader than the disclosures that would be required if the same impairment losses were calculated by reference to the recoverable amount determined on the basis of the value in use, even though the objective of the amendment to IAS 36 when IFRS 13 was developed was to maintain balance between the disclosure requirements for both valuation bases (see paragraph BC219 of IFRS 13).

b) A few other respondents argued that the proposed disclosure requirements exceed the extent of the disclosures required by IFRS 13 because the latter do not require the disclosure of key assumptions for fair value measurements categorised within Level 2. Another respondent argued that providing this information may be costly for preparers and will not provide users of financial statements with any new, valuable information.

18. The staff, however, are of the view that the proposed amendments do not contribute to significantly increasing the imbalance between the disclosure requirements for the recoverable amount when it is determined on the basis of fair value less cost of disposal and for the recoverable amount when it is determined on the basis of value in use. Instead, the proposed amendments to paragraph 130(f) provide more clarity and specific details on the current requirements.

19. Moreover, the staff do not expect that amending paragraph 130(f) to require additional information when the recoverable amount is determined on the basis of fair value less costs of disposal would result in undue cost or be unduly burdensome for preparers, because this information should be available to them when undertaking the impairment test.

20. Some respondents also suggested that the wording of the disclosures proposed in paragraph 130(f) and the wording currently required in paragraph 134(e) should be aligned. In the staff's view the wording proposed in paragraph 130(f) better reflects the requirements that the IASB initially intended to add and modifying the wording of paragraph 134(e) only for the purposes of aligning drafting is outside the scope of this narrow-scope amendment whose purpose is primarily to correct an unintended oversight.

Question 3—Transition provisions

21. The vast majority of the respondents also agreed that the amendments should be applied retrospectively for annual periods beginning on or after 1 January 2014.
22. Some respondents did not, however, agree with this proposal. Some of them think that prospective application would be more appropriate because the amendment does not change any measurement requirements and, according to them, disclosing the information about the impairment loss is most relevant for the current period only. Consequently, from their point of view, retrospective application would only be of limited benefit to users of financial statements.
23. The staff note that retrospective application of the amendments will, in fact, impact only those entities who applied IFRS 13 earlier, ie from 1 January 2012. Even though the number of entities having to present the amendment in comparative periods might be limited, the staff note that the retrospective nature of the amendments also represent a relief for preparers of financial statements due to the clarification of the narrower scope. These arguments should contribute to decreasing the concerns of those who did not agree with the amendments being applied retrospectively.

Question 4—Other comments

24. The following paragraphs describe other comments that respondents raised on the proposals.

Materiality

25. Some respondents thought that the term ‘material’ in the first sentence of paragraph 130 (“An entity shall disclose the following for each *material* impairment loss recognised or reversed during the period…”) should be kept, as they believed that in this paragraph removing this term will make it unclear whether the disclosure requirements apply only to material impairment losses.

26. As stated in the Basis for Conclusions on the Exposure Draft, the IASB proposed to remove this word because all Standards are governed by the concept of materiality as described in IAS 1 *Presentation of Financial* and in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Leaving the reference to materiality in this one paragraph would make it unclear in all other Standards whether the principle of materiality applies or not, if it is not explicitly stated.

27. The staff believes that the rationale of the IASB to remove the term ‘material’ is still valid and, as a result, the staff think that that term should be removed.

Illustrative Example

28. Some respondents questioned the usefulness of the proposed illustrative example. This is because it does not illustrate all the disclosures that are required for recoverable amounts of individual assets or cash-generating units based on fair value less costs of disposal but instead only illustrates the current requirements in paragraph 130(b) and the proposed requirements in paragraph 130(f)(ii).

29. Those respondents thought that such an example could be misleading rather than helpful because it might suggest that no other disclosures are required. Some other respondents thought that the example was not useful because, in their opinion, goodwill should always be tested for impairment as part of a cash-generating unit, not as a single line item, and it is very rare for the

recoverable amount of a cash-generating unit to be equal to the carrying amount of goodwill. It was also not clear for a few respondents what the term ‘implied fair value’ of goodwill meant, which is not a concept introduced by IAS 36. A few respondents suggested deleting this example.

30. The staff note that Example 15 to IFRS 13 illustrates similar disclosures to the ones included in the proposed example included in the Exposure Draft but that Example 15 relates to assets measured at fair value. Because of this, and taking into account the comments of some respondents questioning the usefulness and the potential for confusion of the proposed illustrative example, the staff believe that it should not be part of the final amendments.

‘Costs to sell’ or ‘costs of disposal’

31. One of the respondents noticed that the term ‘fair value less costs to sell’ in IAS 36 was changed to ‘fair value less costs of disposal’. However, no such change was made to ‘fair value less cost to sell’ in IFRS 5.

32. We will highlight this inconsistency to the IFRIC so that it can be considered through the Annual Improvements process.

Discussion Forum on Disclosures

33. Some respondents also commented on the process that the IASB followed for proposing the amendments to the disclosures on IAS 36. They thought that the IASB should consider the results of the Discussion Forum on Disclosures for Financial Reporting before proposing any new disclosure requirement.

Additional disclosures would be needed

34. Some respondents suggested that additional disclosure requirements are necessary in IAS 36. Because the intention of this narrow-scope amendment is to better represent the IASB’s initial intention when IAS 36 was amended by IFRS 13, the staff think that these suggested additional disclosure requirements should not be considered at this time because this is outside the scope of this project.

Staff recommendation

35. On the basis of the analysis of the comment letters, the staff note that the vast majority of the respondents supported the proposed amendments to the disclosure requirements in IAS 36 and understood their relevance.

36. Consequently, the staff recommends to the IASB that it should proceed to finalise the proposed amendment and we ask for permission to begin the balloting process.

Questions for the IASB
1. Do you agree with the staff's recommendation to finalise the proposed amendment to IAS 36? 2. Do you grant the staff permission to begin the balloting process for the amendment to IAS 36?